

## Message Text

UNCLASSIFIED

PAGE 01 ISLAMA 13038 240756Z  
ACTION EB-07

INFO OCT-01 NEA-10 ISO-00 AID-05 CIAE-00 COME-00 FRB-01  
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02  
CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04  
CEA-01 AGRE-00 DHA-02 IO-13 /106 W  
-----240809Z 118110 /14

R 230632Z DEC 76  
FM AMEMBASSY ISLAMABAD  
TO SECSTATE WASHDC 9170  
INFO AMCONSUL KARACHI  
AMCONSUL LAHORE

UNCLAS ISLAMABAD 13038

E.O. 11652: N/A  
TAGS: EAGR, ECON, PK  
SUBJ: GOP INCREASES WHEAT RATION

1. THE GOP RECENTLY ANNOUNCED THE DOUBLING OF THE MONTHLY RATION OF WHEAT OBTAINABLE FROM GOVERNMENT SHOPS BY RATION CARD HOLDERS. THE ANNOUNCED INCREASE WAS FROM 3.7 TO 7.5 KILOS PER MONTH, EFFECTIVE DECEMBER 1, 1976.

2. WE ASSUME THAT THE MAIN MOTIVATION FOR THIS MOVE WAS POLITICAL -- TO ADD TO THE BHUTTO GOVERNMENT'S RECORD OF BENEFITS PROVIDED TO PAKISTAN'S POOR IN ANTICIPATION OF THE ELECTIONS. IN ADDITION, WE BELIEVE THAT THE GOP WANTED TO DRAW DOWN THE ABUNDANT SUPPLY OF WHEAT IN GOVERNMENT WAREHOUSES. WE ALSO SEE THIS MOVE AS PART OF A PATTERN OF INCREASING GOP CONTROL OVER THE WHEAT TRADE.

3. OUR ESTIMATE IS THAT THIS MOVE WILL RESULT IN ONLY A MODEST INCREASE IN THE OFFTAKE FROM GOVERNMENT STOCKS. THE ONE GOVERNMENT ESTIMATE WE HAVE HEARD -- FROM EAD SECRETARY AFTAB AHMAD KHAN -- IS THAT OFFTAKE WOULD INCREASE BY 0.2 MILLION TONS, FROM 2.4 TO 2.6 MILLION. THIS  
UNCLASSIFIED

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PAGE 02 ISLAMA 13038 240756Z

INCLUDES TOTAL OFFTAKE IN THE GOVERNMENT SYSTEM, INCLUDING INSTITUTIONS. SINCE THE GOP USUALLY OVERESTIMATES OFFTAKE FROM THE RATION SHOP SYSTEM, THE ESTIMATED INCREASE MAY BE TOO HIGH. IN ANY CASE, AN INCREASE IN DRAW DOWN OF THIS MAGNITUDE WOULD HAVE ONLY A SMALL IMPACT ON THE STORAGE PROBLEM THAT IS EXPECTED TO DEVELOP AT THE TIME OF

THE NEXT HARVEST UNLESS IT WERE ACCOMPANIED BY MORE DIRECT SALES OF GOP WHEAT TO PRIVATE RETAILERS OUTSIDE THE RATION SHOP SYSTEM. ACCORDING TO A DECEMBER 17 PRESS REPORT, THE PM'S SPECIAL ASSISTANT FOR AGRICULTURE ANNOUNCED THAT GOVERNMENT WHEAT WOULD BE SOLD IN THE OPEN MARKET IN ANY AREA WHERE SHORTAGES THREATENED TO DRIVE RETAIL PRICES UP.

4. AS WE READ THE RATHER CONFUSING SIGNALS FROM THE PRIVATE WHEAT MARKET, THE TIME WOULD SEEM TO BE RIPE TO DO THAT. WHEAT PRICES IN THE PRIVATE SECTOR HAVE BEEN EXCEPTIONALLY HIGH IN SEVERAL PARTS OF THE COUNTRY (IN SOME CASES AS MUCH AS RS. 50 A MAUND IN CONTRAST TO THE GOP PROCUREMENT PRICE OF RS.37 AND THE RATION SHOP FLOUR PRICE OF RS.32). THIS WOULD SUGGEST THAT IN SOME LOCALITIES PRIVATE SUPPLIES WERE LESS THAN HAD BEEN ANTICIPATED, BUT WE HAVE NOT HAD REPORTS OF ACTUAL SHORTAGES.

5. INCREASING THE RATION ALSO, IN OUR VIEW, TENDS TO REINFORCE THE TREND TOWARD INCREASING GOP CONTROL OF THE WHEAT TRADE. THE NATIONALIZATION OF THE FLOUR MILLS GAVE THE GOP CONTROL OF A CONSIDERABLE PROPORTION OF THE FLOUR MILLING CAPACITY IN THE COUNTRY (PRECISE FIGURES ARE UNAVAILABLE). THE DOUBLING OF THE RATION WOULD SUGGEST THAT THE GOP IS NOW TRYING TO INCREASE THE IMPORTANCE OF THE RATION SHOP MECHANISM IN THE WHEAT RETAIL BUSINESS. THIS CONTRASTS WITH THE VIEW WE HAD HEARD SOME GOVERNMENT OFFICIALS EXPRESS IN THE PAST THAT THE GOP SHOULD GET OUT OF THE RETAIL BUSINESS AS SOON AS DOMESTIC SUPPLIES INCREASED TO THE POINT WHERE SHORTAGES WERE NO LONGER A DANGER.

UNCLASSIFIED

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PAGE 03 ISLAMA 13038 240756Z

YM INCREASED SALES OF WHEAT THROUGH THE RATION SHOPS WILL ALSO, OF COURSE, INCREASE THE GOP SUBSIDY BILL. THE FY 1976/77 BUDGET INCLUDED RS. 1176 MILLION (DOLS.118 MILLION) FOR WHEAT SUBSIDIES, OR ABOUT 7 PERCENT OF THE NON-DEVELOPMENT BUDGET. LOWER-THAN-EXPECTED WHEAT IMPORTS AND LOWER WORLD WHEAT PRICES WILL OF COURSE SUBSTANTIALLY DECREASE THIS. HOWEVER, INCREASING THE RATION - A MOVE DIFFICULT TO REVERSE - WILL TEND TO INCREASE THE DOMESTIC COMPONENT OF THIS SUBSIDY (NOW RS. 285 MILLION, OR ABOUT DOLS.29 MILLION) AND TO MAKE IT A MORE PERMANENT FEATURE OF GOP SPENDING. WITH THE PRESENT SUBSIDY AT RS. 5 PER MAUND (EQUIVALENT TO RS. 134 PER TON), THIS IS A SOMEWHAT UNFORTUNATE SIDE EFFECT.

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## Message Attributes

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